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**BEFORE THE ARIZONA CORPORATION COMMISSION****COMMISSIONERS**

BOB STUMP, Chairman

GARY PIERCE

BRENDA BURNS

SUSAN BITTER SMITH

BOB BURNS

**ORIGINAL**

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY, AN ARIZONA  
CORPORATION, FOR A  
DETERMINATION OF THE CURRENT  
FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR INCREASES  
IN ITS RATES AND CHARGES BASED  
THEREON FOR UTILITY SERVICE BY  
ITS ANTHEM WATER DISTRICT AND  
ITS SUN CITY WATER DISTRICT.

Docket No. W-01303A-09-0343

Arizona Corporation Commission

**DOCKETED**

OCT 06 2014

DOCKETED BY

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY, AN ARIZONA  
CORPORATION, FOR A  
DETERMINATION OF THE CURRENT  
FAIR VALUE OF ITS UTILITY PLANT  
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ITS ANTHEM/AGUA FRIA  
WASTEWATER DISTRICT, SUN CITY  
WASTEWATER DISTRICT, AND SUN  
CITY WEST WASTEWATER DISTRICT

Docket No. SW-01303A-09-0343

**VERRADO COMMUNITY  
ASSOCIATION, INC.'S  
DIRECT TESTIMONY**

Verrado Community Association, Inc., through its undersigned counsel, hereby provides  
notice of filing the Direct Testimony of Melinda Gulick and Kent Simer in the above-referenced  
matter.

1 DATED this 6<sup>th</sup> day of October, 2014.

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS  
3 BOB STUMP, Chairman  
4 GARY PIERCE  
5 BREND A BURNS  
6 SUSAN BITTER SMITH  
7 BOB BURNS

8 IN THE MATTER OF THE APPLICATION  
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WASTEWATER DISTRICT, AND SUN  
CITY WEST WASTEWATER DISTRICT

Docket No. SW-01303A-09-0343

21 **Direct Testimony**  
22 **of**

23 **Melinda Gulick**

24 **on behalf of Verrado Community Association, Inc.**  
25 **October 6, 2014**

## Executive Summary

Melinda Gulick is the current President of Verrado Community Association, Inc. (the "Association"). Ms. Gulick describes the Association and its interest as an Intervenor in this case.

Verrado is a community of homes and businesses located near the White Tank Mountains in Buckeye, Arizona. Verrado is expected to have approximately 11,000 homes spanning 8,800 acres. Currently, there are roughly 2,383 homes occupied in the community, approximately 22 businesses and four schools. All of Verrado's water and sewer service is provided by Epcor Water Arizona Inc. ("Epcor").

The Association is a non-profit corporation that serves approximately 7,100 current Verrado residents through a variety of services and community and recreational activities. The Association is seriously concerned about the negative impacts to the Association, residents, and businesses caused by the Commission's authorizations in 2012 (in Decision No. 73227 and Decision No. 73145) of large water and sewer rate increases for the Agua Fria Water and Wastewater Districts. Water rates for the average Agua Fria user are scheduled to climb to \$49.49 in June 2015. Sewer rates for the typical Agua Fria user are scheduled to increase to approximately \$121.91 per month in January 2015. Combined, the typical water/sewer bill will climb to approximately \$171.40.

Ms. Gulick on behalf of the Association requests that the Commission immediately order Epcor to implement full consolidation of wastewater rates for all of Epcor's wastewater districts, or at least all of the wastewater districts in the greater Phoenix metropolitan area (Agua Fria, Sun City, Sun City West, Anthem). The Association believes this solution is the most equitable solution for all Epcor customers who receive the same wastewater service in the same metropolitan area.

1 **Q. Please state your name, position, business address, and telephone number.**

2 A. My name is Melinda Gulick. I am the current President of Verrado Community  
3 Association, Inc. (the "Association"). I am also employed by DMB Associates as Vice  
4 President of Communications, Marketing and Community Life. The business address for  
5 the Association is 4236 North Verrado Way, Suite A200, Buckeye, Arizona 85396.

6 **Q. Have you previously testified before the Commission?**

7 A. Yes. I provided testimony on behalf of the Association in Arizona-American Water  
8 Company's ("Arizona-American's") water rate case, Docket No. W-01303A-10-0448,  
9 and I provided testimony in the earlier de-consolidation proceeding in this case.

10 **Q. What is the purpose of your testimony?**

11 A. The purpose of my testimony is to describe the Association and its interest as an  
12 Intervenor in this case, and to update my prior testimony. In particular, I am describing  
13 the Association's concerns with the effects of the deconsolidation of the Anthem/Agua  
14 Fria Wastewater District ordered by the Commission in this case. Verrado opposed the  
15 Anthem/Agua Fria deconsolidation that was granted by the Commission.

16 **Q. Please describe Verrado.**

17 A. Verrado is a community of homes and businesses located near the White Tank Mountains  
18 in Buckeye, Arizona. Verrado is expected to have approximately 11,000 homes spanning  
19 8,800 acres. Currently, there are roughly 2,383 homes occupied in the community,  
20 approximately 22 businesses and four schools. All of Verrado's water and sewer service  
21 is provided by Epcor Water Arizona Inc. ("Epcor").

22 **Q. Please describe the Association.**

23 A. The Association is a non-profit corporation that serves approximately 7,100 current  
24 Verrado residents through a variety of services and community and recreational activities.

25 **Q. Please describe the Association's interest in this case.**

26 A. The Association is seriously concerned about the negative impacts to the Association,  
27 residents, and businesses caused by the Commission's authorizations in 2012 (in  
28 Decision No. 73227 and Decision No. 73145) of large water and sewer rate increases for



1 the Agua Fria Water and Wastewater Districts, including the third-step sewer rate  
2 increase of the total 133.90 percent increase still to be implemented in January 2015, and  
3 the third-step water rate increase of the total 58 percent increase still to be implemented  
4 in June 2015. Water rates for the average Agua Fria user are scheduled to climb to  
5 \$49.49 in June 2015. Sewer rates for the typical Agua Fria user are scheduled to increase  
6 to approximately \$121.91 per month in January 2015. Combined, the typical water/sewer  
7 bill will climb to approximately \$171.40. I have seen in the billing statements provided  
8 to me, and in public comments, that many people in the greater Agua Fria District already  
9 pay in excess of these amounts.

10 **Q. What was Verrado's opinion in the earlier phase of this case when the Commission**  
11 **considered de-consolidation?**

12 **A.** Verrado filed closing briefs in the earlier proceeding, so they are the best statement of our  
13 prior position. However, I can summarize that Verrado was strongly opposed to the  
14 Anthem/Agua Fria District de-consolidation because we predicted that it would result in  
15 rates for Verrado customers that were much higher than Epcor's Anthem customers were  
16 paying for the same service.

17 **Q. What has happened since the Commission ordered the de-consolidation of the**  
18 **Anthem/Agua Fria District in 2012?**

19 **A.** What I have seen in my role as a community coordinator is that Verrado residents have  
20 since 2012 repeatedly expressed outrage and anguish in community meetings regarding  
21 the Commission's decision to deconsolidate the Anthem/Agua Fria Wastewater District  
22 and their increasing rates. Comments I have witnessed have generally expressed that  
23 residents felt the Commission's decision was unfair to Agua Fria residents. A number of  
24 residents were, and I think still are, angry at RUCO for supporting de-consolidation in the  
25 prior proceeding. The Association staff spent countless hours trying to make sure that the  
26 residents had accurate information about the Commission's decision, and we continue to  
27  
28

1 do so. We appreciate that the current Commissioners are willing to take a new look at  
2 these issues because I can assure you that the issues are very important to our residents,  
3 and the rate increases expected again in January 2015 will only cause further issues.  
4

5 **Q. What is Verrado's position in the current proceedings?**

6 A. Verrado requests that the Commission immediately order Epcor to implement full  
7 consolidation of wastewater rates for all of Epcor's wastewater districts, or at least all of  
8 the wastewater districts in the greater Phoenix metropolitan area (Agua Fria, Sun City,  
9 Sun City West, Anthem). We believe this solution is the most equitable solution for all  
10 Epcor customers who receive the same wastewater service in the same metropolitan area,  
11 and should save future rate case expenses for everyone. Full consolidation should go a  
12 long way toward reducing some of the confusion that currently exists among some of our  
13 residents regarding the variability and unpredictability of water and sewer rates over the  
14 past few years.

15 If for any reason the Commission decides not to grant immediate full  
16 consolidation of wastewater rates, then I encourage the Commission to find an immediate  
17 interim solution that will grant real rate relief to Verrado residents prior to Epcor's next  
18 rate case.

19 **Q. Does this conclude your testimony in this case?**

20 A. Yes.  
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28

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS  
3 BOB STUMP, Chairman  
4 GARY PIERCE  
5 BRENDA BURNS  
6 SUSAN BITTER SMITH  
7 BOB BURNS

8 IN THE MATTER OF THE APPLICATION  
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21 **Direct Testimony**

22 **of**

23 **Kent Simer**

24 **on behalf of Verrado Community Association, Inc.**

25 **October 6, 2014**

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## Executive Summary

Kent R. Simer is an experienced Utility Rate Consultant that testifies on behalf of the Verrado Community Association, Inc. ("Verrado"). Mr. Simer testifies that, in his opinion, the Commission should require full consolidation of Epcor Water Arizona Inc.'s ("EWAZ") wastewater rate structure, either as proposed by EWAZ in its Direct Testimony, or as proposed in the alternative rate design offered by Mr. Simer.

Mr. Simer testifies regarding the substantial differences in EWAZ's current wastewater rates in its service areas, with the same class of residential service paying as low as \$18.11 per month in the Sun City Wastewater District, and as high as \$121.91 per month in the Agua Fria Wastewater District effective in January 2015. Mr. Simer notes that part of the disparity in rates can be attributed to the history of formation of the separate districts, and part to the allocation of plant costs.

Mr. Simer testifies regarding a number of recognized ratemaking principles that, on balance, support EWAZ's and Verrado's proposals to fully consolidate EWAZ's wastewater rates company-wide on both an interim basis, and presumably on a long term basis assuming conditions do not change significantly. Importantly, Mr. Simer testifies that full consolidation and the proposed flat residential rate will simplify the rate structure and makes it more understandable and efficient. A flat rate would reduce the chance of customer confusion and would improve public acceptability of the rate structure in districts that currently have a volumetric rate based upon water usage rather than measured wastewater volumes. The flat consolidated rate is expected to reduce controversies regarding rate interpretation. Full consolidation should result in relatively stable rates that increase or decrease in smaller amounts per customer because the adjustments would be spread over a much larger customer base.

Cost of service is an important consideration rate design, especially when considering the overall revenue to which a company is entitled. Cost of service allocations among customer classes can be difficult, however, due to necessary allocations of shared services. Various subsidies between customer classes are in constant flux. It would be impractical to assign pure cost-of-service rates to eliminate cross-customer subsidies.

Other factors that are important considerations in rate design include fairness, social welfare factors such as ability to pay, administrative considerations, and other externalities.

EWAZ identified as the main factors contributing to the disparity in the de-consolidated rates for Anthem and Agua Fria Wastewater Districts the Northwest Valley Regional Water Reclamation Facility, the Verrado Reclamation Facility and its expansion as well as the Russell Ranch Reclamation Facility. Two of these plants had significant unused capacity in the test year. Mr. Simer testifies that costs associated with the unused capacity in these plants should be spread across EWAZ's customers in all districts because each customer shares the same interest in sound utility planning and investment policies. Full consolidation will encourage prudent plant investment.

Mr. Simer explains that it is important for the Commission to consider the affordability of wastewater rates in determining rate design. Mr. Simer offers alternative measures of affordability used in other jurisdictions and concludes that the Agua Fria rates exceed these measures of affordability. A reasonable alternative that addresses affordability is full consolidation.

1 Mr. Simer offers an alternative full consolidation rate design that addresses rate  
2 gradualism by implementing full consolidation in two steps.

3 Mr. Simer testifies that re-consolidation of the Anthem and Agua Fria Wastewater  
4 Districts will address some of the same ratemaking factors as the full consolidation proposal,  
5 including affordability, but that full consolidation is a better solution. Full de-consolidation is  
6 counter-productive to a number of ratemaking goals, including the additional costs that would be  
7 incurred to achieve it, rate de-stabilization, unfair allocation of unused plant costs, and potential  
8 adverse effects on the viability of wastewater systems.  
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1 **I. INTRODUCTION**

2 **Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.**

3 **A.** My name is Kent R. Simer. My business address is 160 N. Pasadena, Suite 101, Mesa,  
4 Arizona. I am a Utility Rate Consultant for K. R. Saline & Associates, PLC, a firm that  
5 provides electrical engineering services, management consulting, and ongoing business  
6 operational services primarily to wholesale public electric utilities.  
7

8 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS AND**  
9 **EXPERIENCE.**

10 **A.** I have been employed at K. R. Saline & Associates, PLC for the past sixteen years,  
11 providing various services to our clients. For the past nine years my primary  
12 responsibilities have included performing cost-of-service and rate design, economic  
13 analyses and computer-aided modeling for power supply planning, load forecasting,  
14 financial forecasting, and cost/benefit analysis for various municipal, tribal and public  
15 utilities throughout Arizona.

16 I have a Bachelors Degree in Interdisciplinary Studies in Business and  
17 Communications from Arizona State University. Additionally I have completed  
18 American Public Power Association basic and advanced Utility Cost of Service and  
19 Retail Rate Design courses.

20 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

21 **A.** Yes. I provided testimony in the de-consolidation phase of this case, and in Arizona-  
22 American Water Company's rate case filed in Docket No. W-01303A-10-0448. Arizona-  
23 American Water Company is now named Epcor Water Arizona Inc. ("EWAZ").

24 **Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?**

25 **A.** I am appearing on behalf of the Verrado Community Association, Inc. ("Verrado").  
26 Verrado is a customer of EWAZ's Agua Fria Wastewater District, and has as members  
27 numerous residential and commercial customers who are directly impacted by the rates  
28 cited in the customer comments that led to this proceeding.

1 **Q. HAVE ANY OF YOUR OPINIONS PREVIOUSLY PROVIDED IN THIS CASE**  
2 **CHANGED?**

3 **A.** No, other than the history in my prior opinions would need to be updated to reflect what  
4 has happened in this case since that testimony was given. My prior testimony is still  
5 relevant to this part of the case.

6 **Q. WHAT IS THE PURPOSE OF YOUR CURRENT TESTIMONY IN THIS CASE?**

7 **A.** In my testimony, I address why I believe it would be just and reasonable and in the public  
8 interest for the Commission to require full consolidation of EWAZ's wastewater rate  
9 structure, either as proposed by EWAZ in its Direct Testimony, or in the alternative rate  
10 design that I propose in my testimony. I also provide opinions on the other alternatives  
11 identified by EWAZ in its Direct Testimony.

12 **II. BACKGROUND**

13 **Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE BACKGROUND FOR**  
14 **THIS PROCEEDING.**

15 **A.** This case started as a rate case. On January 6, 2011, the Commission issued Decision  
16 No. 72047 in the current Docket, which required the Docket to remain open for the sole  
17 purpose of considering the design and implementation of stand-alone revenue  
18 requirements and rate designs. Consideration of stand-alone revenue requirements and  
19 rate design was a term of the settlement agreement reached during the Open Meeting for  
20 the Anthem/Agua Fria Wastewater District and certain other districts.<sup>1</sup> The settlement  
21 agreement was the result of last-minute discussions between Arizona-American, the  
22 Anthem Community Council, RUCO, and Staff during the Open Meeting. Verrado was  
23 not a party to the settlement agreement.

24  
25 On April 1, 2011, EWAZ (Arizona-American) filed a compliance application  
26 containing proposed deconsolidated stand-alone revenue requirements and rate designs

27 <sup>1</sup> Commission Decision No. 72047, January 6, 2011, Docket No. SW-01303A-09-0343, p. 84  
28



1 for the proposed separate Anthem and Agua Fria Wastewater districts, and a hearing  
2 process followed.

3 Then, in Decision No. 73227, the Commission adopted a de-consolidated rate  
4 design for the Anthem/Agua Fria District that included a total increase of 133.90 percent  
5 for typical Agua Fria customers, phased in three steps taking effect January 1, 2013,  
6 January 1, 2014, and January 1, 2015. Because the adopted rate design had a volumetric  
7 component, some customers pay less, and some customers pay more than the typical rates  
8 reflected in the earlier rate schedules.

9 Most recently, as noted by the Commission in Decision No. 74588, customers, and  
10 in particular Agua Fria customers, made significant complaints to the Commission about  
11 the high water and sewer rates and some specifically addressed rate consolidation and de-  
12 consolidation options.

13 **Q. HAS THE COMMISSION PREVIOUSLY REQUESTED THAT EWAZ PRESENT**  
14 **A PROPOSAL TO CONSOLIDATE RATES?**

15 **A.** Yes. The Commission first requested EWAZ (Arizona-American) present a proposal to  
16 consolidate rates in Docket No. W-0303A-08-0227; however, the Commission ultimately  
17 decided to defer any decision on consolidation until a more thorough vetting, discussion,  
18 and public participation regarding consolidation could occur. The Commission ordered  
19 at least one proposal for consolidation be presented in the next rate case.<sup>2</sup> In the current  
20 case, consolidation was discussed at great length, with Arizona-American, Anthem, and  
21 others giving significant support to the complete consolidation of Arizona-American's  
22 water systems. In Decision No. 72047, the Commission cited the need for Arizona-  
23 American to include all of its systems in a consolidation proposal, and to file the proposal  
24 in a future rate application.<sup>3</sup>

25  
26  
27 <sup>2</sup> Decision No. 71410, p. 51.

28 <sup>3</sup> Decision No. 72047, pp. 84, 123.

1 More recently, the Commission in Decision No. 72337, again required EWAZ to  
2 file the system-wide rate filing as ordered by Decision No. 72047 "that includes all of the  
3 affected districts , including the Sun City Wastewater district, as soon as possible, so that  
4 all affected parties will receive notice of, and will have a full opportunity to address, all  
5 the issues affecting the Company's revenue requirements, and can make proposals either  
6 for or against consolidation or deconsolidation for Commission consideration."

7 **Q. HAS EWAZ FILED THAT CASE?**

8 **A.** Not yet.

9 **Q. HAVE YOU READ THE CUSTOMER COMPLAINTS REFERRED TO BY THE**  
10 **COMMISSION IN DECISION NO. 74588?**

11 **A.** Yes, I read many of the complaints entered into the Commission's docket, although I  
12 cannot promise that I read every one of them because there are so many. I agree with the  
13 Commission's general characterization of the comments in Decision No. 73227.

14 **Q. DO YOU BELIEVE THAT THE RATE SHOCK YOU PREDICTED IN YOUR**  
15 **AUGUST 16, 2011 DIRECT TESTIMONY HAS OCCURRED?**

16 **A.** Yes, based upon my review of the customer comments, I think it is fair to conclude that  
17 many Agua Fria customers clearly noticed the rate increases to date, found them  
18 objectionable, and the comments and petitions could be described as a reaction to rate  
19 shock and rising concerns over the affordability of wastewater services.

20 **III. CURRENT EWAZ RATES ARE SUBSTANTIALLY DIFFERENT FOR SAME**  
21 **WASTEWATER SERVICE**

22 **Q. HOW DO EWAZ'S RATES CURRENTLY COMPARE ACROSS ITS VARIOUS**  
23 **WASTEWATER DISTRICTS?**

24 **A.** I prepared an Attachment A to my testimony that illustrates the differences in rates for a  
25 typical 5/8 x 3/4 inch water customer in each of the districts. The differences are  
26 substantial, with the lowest monthly rate in the Sun City Wastewater District at \$18.11  
27 per month, and the typical rate in the Agua Fria Wastewater District at \$121.91 in  
28 January 2015.

1 **Q. HOW DOES EWAZ'S WASTEWATER COLLECTION AND TREATMENT**  
2 **SERVICE DIFFER TO CUSTOMERS IN THESE DIFFERENT WASTEWATER**  
3 **SERVICE AREAS?**

4 **A.** Based upon my review of evidence in this case to date, I do not believe there is any  
5 difference in the wastewater service that EWAZ provides to these customers, whether  
6 they are paying \$18.11 a month, or \$106.21 a month, or some rate in between or higher.

7 **Q. WHAT IS THE REASON FOR THE WIDE DISPARITY IN EWAZ'S RATES IN**  
8 **DIFFERENT WASTEWATER SERVICE AREAS?**

9 **A.** I defer to EWAZ's summary of the history of the formation of its separate districts in its  
10 Direct Testimony. Some of the reason for the wastewater rate disparity appears to be  
11 simply historical because the rates were proposed to be charged in one district and not  
12 another. Part of the disparity is also due to prior cost allocation decisions, such as the  
13 prior decision in this case to allocate a percentage of the costs associated with the  
14 Northwest Valley Regional Wastewater Reclamation Facility to EWAZ's Sun City West  
15 Wastewater District and another part of the plant costs to the Agua Fria Wastewater  
16 District. Another example is the Commission's expressed desire to "correctly assign cost  
17 responsibility for all ratemaking components" in Decision No. 72047 in this case.

18 **Q. IS THERE AN IMMEDIATE NEED TO RE-EXAMINE THE DISPARITIES IN**  
19 **EWAZ'S WASTEWATER RATES?**

20 **A.** Yes, in this case, absolutely. The variance in the rates EWAZ charges for the same  
21 wastewater service by the same company to the same class of customer in the same urban  
22 area is extreme.

23 **IV. STANDARDS FOR RATE DESIGN**

24 **Q. WHAT INDUSTRY STANDARD OR TECHNICAL STANDARD SHOULD THE**  
25 **COMMISSION FOLLOW TO DETERMINE WHETHER EWAZ'S EXISTING**  
26 **RATE DESIGNS SHOULD BE CHANGED?**  
27  
28

1 A. Well, I think the overriding principles are that the rates are to be "just and reasonable" for  
2 the service rendered per Article 15, section 3 of the Arizona Constitution. The Arizona  
3 Revised Statutes also require that EWAZ shall not "make or grant any preference or  
4 advantage to any person or subject any person to any prejudice or disadvantage." A.R.S.  
5 § 40-334.A. "No public service corporation shall establish or maintain any unreasonable  
6 difference as to rates, charges, service, facilities, or in any other respect, either between  
7 localities or between classes of service." A.R.S. § 40-334.B.

8  
9 Beyond these constitutional and statutory requirements, to my knowledge, the  
10 Commission has not formally adopted any industry or technical standard methodology of  
11 rate design that would control the issues currently presented within those guidelines, nor  
12 am I aware of a definitive published technical standard. I also do not believe the  
13 Commission has adopted any definitive precedent that would require any certain outcome  
14 to the consolidation questions presented here. The Commission regulates companies that  
15 have statewide consolidated rates, such as Arizona Public Service Company, and has  
16 granted further consolidation in at least one case to a water utility that had de-  
17 consolidated rates. See Decision No. 71845, pp. 50-53.

18 A term in Commission decision number 73227 used to describe the Commission's  
19 desired standard for rate design in this case is probably its reference to "sound ratemaking  
20 principles." With that in mind, I have reviewed a number of respected ratemaking  
21 authorities to determine what sound ratemaking principles the Commission should apply  
22 in this case.

23 A well-accepted authority on ratemaking principles that has informed the opinions  
24 I provide in this testimony is the book "Principles of Public Utility Rates" by James C.  
25 Bonbright (and other authors).<sup>4</sup> I have also reviewed the book, "The Regulation of Public

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26  
27 <sup>4</sup> Principles of Public Utility Rates, by James C. Bonbright, Albert L. Danielsen, and David R. Kamershen,  
28 Second Ed. 1988.

1 Utilities” by Charles F. Phillips, Jr.,<sup>5</sup> materials prepared by the National Association of  
2 Regulatory Utility Commissioners (NARUC), and materials published by the American  
3 Public Power Association.

4 Several sources rely on Bonbright’s eight criteria of a sound rate structure as a  
5 basis for their discussions of ratemaking principles:

- 6 1. The related, “practical” attributes of simplicity, understandability, public  
7 acceptability, and feasibility of application.
- 8 2. Freedom from controversies as to proper interpretation.
- 9 3. Effectiveness in yielding total revenue requirements under the fair return standard.
- 10 4. Revenue stability from year to year.
- 11 5. Stability of the rates themselves, with a minimum of unexpected changes seriously  
12 adverse to existing customers.
- 13 6. Fairness of the specific rates in the apportionment of total costs of service among  
14 the different consumers.
- 15 7. Avoidance of “undue discrimination” in rate relationships.
- 16 8. Efficiency of the rate classes and rate blocks in discouraging wasteful use of  
17 service while promoting all justified types and amounts of use.<sup>6</sup>

18 Ratemaking may also be used to fulfill other public policies, such as the  
19 encouragement of additional investment in infrastructure and the encouragement of  
20 consolidation of private companies to achieve economies of scale in services.

21 On balance, these factors support EWAZ’s and Verrado’s proposals to fully  
22 consolidate EWAZ’s wastewater rates company-wide on both an interim basis, and  
23 presumably on a long term basis assuming conditions do not change significantly.

24  
25  
26  
27 <sup>5</sup> The Regulation of Public Utilities, by Charles F. Phillips, Jr., Third Ed. 1993.

28 <sup>6</sup> Principles of Public Utility Rates, by James C. Bonbright, First Ed. 1961.

1           The rate design principles that I find are especially relevant to EWAZ's and  
2 Verrado's full consolidation proposals, and the other two alternatives identified by  
3 EWAZ in its August 8, 2014 report are discussed below.

4  
5 **V. SIMPLICITY, UNDERSTANDABILITY, PUBLIC ACCEPTABILITY,**  
6 **FEASIBILITY OF APPLICATION**

7 **Q. HOW WOULD THE RATE PROPOSALS IN EWAZ'S DIRECT TESTIMONY**  
8 **AND AUGUST 8 REPORT ADDRESS RATE SIMPLICITY, UNDERSTAND-**  
9 **ABILITY, PUBLIC ACCEPTABILITY AND FEASIBILITY OF APPLICATION?**

10 **A.** From a practical perspective, EWAZ's proposal to fully consolidate its tariffed  
11 wastewater rates company-wide to a uniform flat rate undeniably simplifies the rate  
12 structure and makes it more understandable. A flat rate would reduce the chance of  
13 customer confusion and would improve public acceptability of the rate structure in  
14 districts that currently have a volumetric rate based upon water usage rather than  
15 measured wastewater volumes. Consolidating rates company-wide will also reduce  
16 customer confusion regarding why some customers receiving wastewater service from  
17 the same company are required to pay \$18 monthly rates while others must pay in excess  
18 of \$100.

19           Re-consolidation of the Agua Fria and Anthem Wastewater Districts would be a  
20 positive step toward full consolidation of rates, although the rates are still more complex  
21 than a flat fee. Re-consolidation could feasibly be implemented quickly because it would  
22 simply reverse the change in rate design made two years ago.

23           EWAZ's testimony regarding the extraordinary cost and effort needed to achieve  
24 full de-consolidation would be counterproductive to the goals of simplicity,  
25 understandability, public acceptability and feasibility. Each future rate case would  
26 present an opportunity for the company's customers to argue about the appropriate  
27 allocation of costs for shared resources.  
28

1 **VI. FREEDOM FROM CONTROVERSIES AS TO INTERPRETATION**

2 **Q. HOW WOULD THE RATE PROPOSALS IN EWAZ'S DIRECT TESTIMONY**  
3 **AND AUGUST 8 REPORT ADDRESS FREEDOM FROM CONTROVERSIES OF**  
4 **INTERPRETATION?**

5 **A.** A flat rate that applies uniformly to all customers within a class in a fully consolidated  
6 rate structure is subject to almost no interpretation, so controversies over its meaning are  
7 not expected.

8 Re-consolidation of the Anthem and Agua Fria Wastewater Districts would return  
9 the affected customers to the same rates in place prior to the de-consolidation, so there  
10 would still be a volumetric portion that would be expected to cause approximately the  
11 same amount of controversy that was experienced prior to the de-consolidation of the  
12 districts. Most customers would already have experience with these rates since they were  
13 in place prior to the de-consolidation. Prior decisions did not note any particular  
14 controversies caused by the rate structure, although I recall seeing in the course of this  
15 case a few public comments that indicated customers disagreed with the volumetric  
16 methodology.

17 Full de-consolidation will be counterproductive to the goal of controversy-free  
18 interpretation of the rate structure as it would increase the rate disparities among  
19 EWAZ's customers in the same class of service who live in nearby areas. Cost  
20 allocations among districts would be a continuing point of controversy between  
21 customers of separate districts.

22 **VII. RATE STABILITY**

23 **Q. HOW WOULD THE RATE PROPOSALS IN EWAZ'S DIRECT TESTIMONY**  
24 **AND AUGUST 8 REPORT ADDRESS RATE STABILITY?**

25 **A.** The anticipated future effect of a fully-consolidated rate structure would be relatively  
26 stable rates that increase or decrease in smaller amounts per customer because the  
27  
28

1 adjustments would be spread over a much larger customer base. Full consolidation  
2 presents the best opportunity to guard against wildly fluctuating rates.

3 Full deconsolidation of rates is expected to result in less stable rates. One  
4 potential example of this effect could occur in Russell Ranch. EWAZ explained in its  
5 May 2014 Proposed 208 Water Quality Management Plan Amendment that EWAZ may  
6 in a future year construct the West Valley Regional Water Reclamation Facility. The  
7 initial cost of that plant is expected to exceed ten million dollars, and some amount of  
8 that total cost could be presented in rates before future customers are available to pay for  
9 use of the full plant capacity. Assuming the Commission might find some part of the  
10 unused capacity used and useful before customers are using the full capacity (as the  
11 Commission usually does), the cost of that excess plant capacity might be spread across  
12 only a few hundred customers that include the Russell Ranch residents. Such a large cost  
13 spread over only a few hundred customers could result in a very high rate increase,  
14 whereas if such costs are spread company-wide, the cost to each customer would be  
15 much less.

16 Immediate re-consolidation of Anthem and Agua Fria rates would not be expected  
17 to cause any greater confusion than is already expected as the third step rate change in  
18 both districts is already set to take effect in January 2015.

19  
20 **VIII. FAIRNESS IN APPORTIONMENT OF COSTS AMONG DIFFERENT**  
21 **CONSUMERS**

22 **Q. IS COST OF SERVICE AN IMPORTANT CONSIDERATION IN RATE**  
23 **DESIGN?**

24 **A.** Yes. As noted in the well-respected book "Principles of Public Utility Rates" by James  
25 C. Bonbright (2nd Edition, 1988), cost of service principles are almost universally  
26 accepted as a factor to consider in ratemaking, although Bonbright notes that "cost of  
27  
28



1 service" can have many meanings.<sup>7</sup> Bonbright explains that cost of service principles are  
2 followed more closely as a measure of general rate levels (as between the utility and all  
3 customers in general), but is not as much of a factor in individual rate schedules. In other  
4 words, in determining what overall rate the utility is entitled to charge, cost of service  
5 principles are followed pretty closely, but when it comes to individual rate class  
6 schedules, other rate design factors tend to influence rate design more.

7 **Q. WHAT FACTORS INFLUENCE RATE DESIGN OTHER THAN COST OF**  
8 **SERVICE?**

9 **A.** Well, as an initial matter, it is sometimes difficult to allocate costs of shared services, so  
10 cost allocations for shared services may be estimated and are imperfect. An example of  
11 such an estimated cost allocation that has a significant influence on rates in this case is  
12 the allocation of Northwest Valley Regional Water Reclamation Facility costs between  
13 EWAZ's Sun City West and Agua Fria Wastewater Districts.

14 There also may be a variety of policy factors that affect rate design other than cost  
15 of service principles. In the context of EWAZ's wastewater rates, these factors can  
16 include social welfare factors, administrative considerations, or other externalities. An  
17 example of a social factor is ability to pay. A good example of application of this policy  
18 principle by the Commission is the Commission's establishment of a low-income  
19 program in EWAZ's Sun City area. Sun City customers are required to pay a little bit  
20 more for service than they otherwise might be required to pay in order to assist qualified  
21 low-income customers to pay their bills. This sort of program discriminates between  
22 customers in the same rate class, but supports a social policy of providing payment  
23 assistance to low income households.

24 Another policy factor can be characterized simply as fairness. The Commission is  
25 asked in this case to consider whether it is fair for EWAZ's customers who receive  
26

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27 <sup>7</sup> Bonbright, pp. 109-10.  
28

1 identical wastewater collection and treatment services to pay a variety of different rates,  
2 the difference of which is based in significant part upon whether a customer has a  
3 physical connection to a plant with unused capacity. In the prior de-consolidation phase  
4 of this case, EWAZ was asked to identify the main factors that contributed to the large  
5 disparity between the de-consolidation rates for the Agua Fria wastewater customers.  
6 EWAZ responded that the main factors that contributed to the disparity in de-  
7 consolidated rates are “the Northwest Valley Regional Water Reclamation Facility, the  
8 Verrado Reclamation Facility and its expansion as well as the Russell Ranch Reclamation  
9 Facility.”<sup>8</sup> Two of these plants had significant unused capacity in the test year. I have  
10 attached as Attachment C charts showing the amount of capacity used in the plants as of  
11 the end of 2008, 2010, and 2013.

12 The Commission is asked here to consider whether it is fair to make all of  
13 EWAZ’s customers, or only the customers residing in a new subdivision, pay for all of  
14 the future capacity portion of a particular wastewater treatment plant. Bonbright noted  
15 that, “Of all of the many problems of ratemaking that are bedeviled by unresolved  
16 disputes about issues of fairness, the one that deserves first rank for frustration is that  
17 concerned with the apportionment among different classes of ratepayers of the demand  
18 costs or capacity costs...”<sup>9</sup> I presume the Commission authorized rate base treatment for  
19 the unused capacity in EWAZ’s newer treatment plants in order to encourage efficient  
20 plant sizing and to encourage future investment in plant infrastructure. Those are  
21 recognized public policy goals that support the private wastewater industry on a statewide  
22 basis; not on a subdivision-by-subdivision basis. Unless the Commission will change its  
23 mind regarding the used and useful nature of the excess capacity in EWAZ’s plants, it is  
24 not fair to concentrate the burden of fulfilling industry goals on only some of EWAZ’s  
25

26 <sup>8</sup> See EWAZ’s response to Verrado DMB Question 2.4, attached as Attachment B.

27 <sup>9</sup> Bonbright, p. 184. Bonbright further notes that the general tendency is to spread capacity costs fairly wide, “as  
28 butter would be spread over bread in a gourmet’s sandwich.”

1 wastewater customers. Every customer shares the same interest in ensuring sound utility  
2 planning and investment policies, and the burdens of such policies are more fairly spread  
3 equally among customers in the same rate classes. When examining whether one set of  
4 customers is arguably "subsidizing" the costs caused by another set of customers, the  
5 amount of the rate associated with excess plant capacity should not be considered. For  
6 example, a resident of Verrado is not a cost causer as to plant capacity constructed for the  
7 use of a future customer. The cost of service between similarly-situated customers in  
8 different EWAZ districts is much closer if excess plant capacity is considered a  
9 company-wide expense.

10 Another fairness factor is whether it is fair to customers to allow EWAZ to  
11 continue filing separate rate cases on an ad hoc basis for separate wastewater districts  
12 when the rate case expenses and accounting costs for all wastewater customers can be  
13 reduced through company-wide consolidation of wastewater rates. Overall, all customers  
14 will benefit from increased rate case efficiencies.

15 **Q. ARE THE FULL DE-CONSOLIDATION OPTION AND THE RE-**  
16 **CONSOLIDATION OPTION BETTER OPTIONS FOR FAIR ALLOCATION OF**  
17 **COSTS TO COST CAUSERS?**

18 **A.** No. Full de-consolidation would be the most explicit application of cost assignment and  
19 would most closely follow the cost causation principle that says costs should be borne by  
20 those who cause them to be incurred. However, full de-consolidation would only add to  
21 the issues that led to Decision No. 74588 in the first place. Full de-consolidation would  
22 also only further jeopardize the viability of the wastewater systems as costs are spread  
23 over fewer and fewer customers. This is especially critical given the potential  
24 development of the West Valley Regional Water Reclamation Facility, which has the  
25 same underpinnings as the Northwest Valley Regional Wastewater Reclamation Facility  
26 that have led to the dramatic increases in rates in the Agua Fria wastewater system.  
27  
28

1 Further de-consolidation, therefore, appears to be at odds with existing efforts at the  
2 Commission aimed at improving the viability of smaller water and wastewater systems.

3 The decision to deconsolidate the Agua Fria and Anthem wastewater systems in  
4 Decision 73227 was done to comply with the cost causation principle and as a term of the  
5 previous settlement agreement; thus, undoing this decision through the re-consolidation  
6 of the two systems would follow neither principles of rate design or past Commission  
7 thinking. Re-consolidation would, however, provide an alternative measure that could be  
8 taken to address the customer complaints and potential for affordability issues. Finally, it  
9 is also important to note that neither full de-consolidation nor re-consolidation would  
10 address the lack of fairness in the cost assignment of unused plant capacity as discussed  
11 above. Full consolidation appears to be the best solution that would address the vast  
12 majority of the customer complaints and ensure viability of the entire system.

13 By way of example, the New Hampshire Public Utilities Commission<sup>10</sup> ruled that  
14 it was not in the public interest to impose annual rates in the range of \$800 to \$1200 on  
15 residential customers due to a high magnitude of plant investment, when a reasonable  
16 alternative was available. In the New Hampshire case, it was determined that  
17 consolidating water systems that were not physically connected, would result in rates that  
18 were just and reasonable and would ensure affordability and the continued viability of the  
19 utility. In the immediate case, a similarly reasonable alternative is available. Complete  
20 consolidation would ensure that rates are affordable, just and reasonable, and have greater  
21 effectiveness in yielding total revenue requirements for the utility. Therefore, I would  
22 not agree that either full de-consolidation or re-consolidation are better options when a  
23 reasonable alternative is available.  
24  
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27 <sup>10</sup> New Hampshire Public Utilities Commission, Order No. 22883, DR 97-058, Pennichuck Water Works, Inc.  
28 Petition for Permanent Rate Increase, March 25, 1998.

1 **IX. FULL CONSOLIDATION**

2 **Q. DOES VERRADO SUPPORT THE CONCEPT OF FULL CONSOLIDATION?**

3 **A.** Yes. The full consolidation of EWAZ wastewater districts is a sustainable model that  
4 will encourage and enable prudent plant investment that will be required to maintain a  
5 high level of service across the different service territories. Customers will benefit from  
6 consolidation through stable and predictable rates, reduced regulatory expenses, and  
7 increased operating efficiencies that will result from the economies of scale of a unified  
8 wastewater system. All EWAZ customers would be recipients of the same level of  
9 service, regardless of geographic location, and existing disparities for these services  
10 would be eliminated.

11 **Q. DOES IT MATTER THE SYSTEMS ARE NOT PHYSICALLY CONNECTED?**

12 **A.** No. The separate systems of EWAZ already receive partially consolidated services  
13 through centralized operational activities and all customers share a common interest in  
14 the ongoing financial viability of the corporation. As EWAZ explained in its testimony,  
15 operational activities are centralized for billing, accounts payable, payroll, purchasing,  
16 insurance and pension benefits, accounting, public affairs, liability insurance, personnel  
17 training, engineering, water quality, budgeting, and rate case preparation. Consolidation  
18 would provide further operational efficiencies through reduced rate case filings.

19       Though cost-causality principles support the arguments made for a deconsolidated  
20 system, the fact remains that all users of the utility rely on the ability for EWAZ to raise  
21 and invest large amounts of new capital. The poor performance from any single water  
22 system can impact EWAZ's ability to afford financing and construction of significant  
23 capital projects. Though system planning is often thought of as only having a regional  
24 impact, financial planning is not conducted based on the same regional differences. In  
25 this manner, the financial risks of an investor-owned utility do not limit themselves to the  
26 spatially disparate system it operates, but rather spreads the risk across all of its  
27  
28

1 customers. The Edison Electric Institute addressed the increasing pressures on utility  
2 rates and finances in a brochure<sup>11</sup> on "New Regulatory Frameworks for Electric  
3 Infrastructure Investment," highlighting the potential impacts that customers can be  
4 confronted with if the utility is unable to adequately fund capital projects:

5  
6 *For customers, the implications could be severe. Failure to address these*  
7 *new challenges could result in utility underinvestment, or reduced ability to*  
8 *make needed new large capital investments. To the extent utilities do make*  
9 *such investments, there is the potential for "rate shock" as new assets are*  
10 *added to rate base. Under traditional cost of service regulation, large*  
11 *capital projects are not added to rate base until they become used and*  
12 *useful, which can cause significant rate impacts due to the accumulation of*  
13 *carrying costs on invested capital. Alternatively, given a perceived risk of*  
14 *under-recovery and the scale of capital requirements, utilities may be*  
15 *forced to choose between competing objectives in order to rein in*  
16 *burgeoning capital commitments.*

17 The long-term planning that addresses expansion of system capacity is prudent and  
18 necessary to ensure future water and wastewater needs are met, but inherently puts  
19 significant risk on the utility and ratepayers alike if projected growth is not fully realized.  
20 This is amply illustrated in the level of unused capacity at each of the treatment plants.  
21 While the utility and its shareholders bear the ultimate risk of collecting their investment  
22 on their capital outlay; customers face the burden of increased rates from the lumpiness  
23 of an investment preceding the customer base that can support it. This can impact a  
24 customer's ability-to-pay or reduce demand for services, further exacerbating the  
25 financial position of the utility. To the extent that a utility can consolidate its service  
26 territories; a utility can more easily achieve economies of scale and viability and allow it  
27 to fulfill its obligations to provide reliable service.  
28

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<sup>11</sup> Edison Electric Institute, *New Regulatory Frameworks for Electric Infrastructure Investment*. Retrieved from  
[http://www.eei.org/issuesandpolicy/stateregulation/documents/altreg\\_brochure\\_final.pdf](http://www.eei.org/issuesandpolicy/stateregulation/documents/altreg_brochure_final.pdf).

1 **Q. HOW WOULD A CONSOLIDATED WASTEWATER UTILITY COMPARE TO**  
2 **OTHER PHYSICALLY CONNECTED UTILITIES.**

3 **A.** The main argument against consolidation is that it goes against cost-causation principles,  
4 and subsidies are created between customers who do not receive equal benefit, or may  
5 receive no benefit from the installed plant investments throughout the consolidated  
6 service territory. The fact is that subsidies already exist between customers and are in  
7 constant flux as the operating characteristics of the different customer groups adapt and  
8 change. Within a single customer group, under uniform rate structures, low use  
9 customers with fixed minimum bills, are often subsidizing high use customers. This is  
10 due to the fact that system capacity is planned to meet the needs of the high use customer.  
11 Similarly, end-of-line users or rural users have a higher embedded cost of service, but are  
12 often supplied service at the same rate as other centralized, urban customers. These  
13 subsidies are not unique to just physically disconnected wastewater systems. Electric  
14 utility customers experience the same subsidization through interclass variations in usage  
15 and differences between rural and urban customers. Additionally, expansion of the  
16 electric grid may come at great expense to existing customers if new significant  
17 generation resources are required and built at a great distance from the load for the  
18 purpose of serving customers in new outlying areas. Overall, it would be impractical to  
19 assign pure cost-of-service rates on a customer-by-customer base to eliminate cross-  
20 customer subsidies. By accepting that some level of subsidy will always exist, the  
21 question becomes "how much subsidy is sustainable." In other consolidated industries,  
22 the efficiencies arrived at through economies of scale of consolidation and uniform rate  
23 setting have outweighed the importance of following a strict cost-of-service practice.

24 **X. AFFORDABILITY OF RATES**

25 **Q. MANY OF THE CUSTOMER COMPLAINTS RELATE TO THE**  
26 **AFFORDABILITY OF AGUA FRIA DISTRICT WASTEWATER RATES. HOW**  
27 **SHOULD THE COMMISSION ADDRESS THE AFFORDABILITY OF RATES?**  
28

1 A. Affordability can be a subjective factor. However, there are ways to evaluate  
2 affordability data that make its determination more objective, and it is certainly an  
3 established, sound ratemaking factor for the Commission to consider in this proceeding.  
4 The U.S. Environmental Protection Agency, recognizing that federal mandates stemming  
5 from the Clean Water Act and Safe Drinking Water Act may have substantial economic  
6 impact on water and wastewater customers, developed a two-level screening analysis<sup>12</sup> as  
7 a litmus test for wastewater service affordability. The preliminary screen evaluates the  
8 average per household cost of wastewater relative to the median income in the area.  
9 Wastewater costs exceeding 2% of the median household income is considered to have a  
10 "large economic impact" and residents are likely to experience economic hardship. A  
11 secondary screen tests against six economic indicators which include the community's  
12 bond rating, net debt, median household income, local unemployment rate, property tax  
13 burden, and property tax collection rate.

14 According to recent to the U.S. Census Bureau 2012 American Community  
15 Survey,<sup>13</sup> Maricopa County has an average median household income of \$59,479. Using  
16 the EPA preliminary screen, a wastewater bill exceeding \$1,190 per year, or \$99.17 per  
17 month would be deemed to have a large economic impact on residents. The typical Agua  
18 Fria wastewater customer will be paying \$121.91 per month for wastewater service  
19 effective under the final step of the current approved rates. This exceeds the EPA  
20 affordability screen by 23%. Under the proposed full de-consolidation proposal, EWAZ's  
21 preliminary analysis detailed in its Direct Testimony in Exhibit SLH-5 determined the  
22

23 <sup>12</sup> U.S. Conference of Mayors, American Water Works Association & Water Environment Federation, (2013),  
24 *Assessing the Affordability of Federal Water Mandates*. Retrieved from  
25 [http://www.awwa.org/Portals/0/files/resources/water%20utility%20management/affordability/Affordability-](http://www.awwa.org/Portals/0/files/resources/water%20utility%20management/affordability/Affordability-IssueBrief.pdf)  
26 [IssueBrief.pdf](http://www.awwa.org/Portals/0/files/resources/water%20utility%20management/affordability/Affordability-IssueBrief.pdf).

27 <sup>13</sup> U.S. Census Bureau; 2012 American Community Survey, Selected Household Characteristics, File generated  
28 by Mitchell Day using American FactFinder; <<http://factfinder2.census.gov>>; (16 September 2014). U.S.  
Census Bureau; 2012 American Community Survey, Income in the past 12 Months (In 2012 Inflation-Adjusted  
Dollars), File generated by Mitchell Day using American FactFinder; <<http://factfinder2.census.gov>>; (11  
September 2014).



1 average cost for Verrado and Northeast Agua Fria customers as \$121.31 and \$113.69,  
2 respectively, per month. Only full consolidation, or re-consolidation of the Anthem and  
3 Agua Fria wastewater districts would result in a monthly wastewater bill that would be  
4 considered affordable by the EPA screen.

5 **Q. HAVE OTHER METHODS FOR DETERMING AFFORDABILITY BEEN**  
6 **ACCEPTED BY A PUBLIC SERVICE COMMISSION?**

7 **A.** Yes. In Docket Number 080121-WS,<sup>14</sup> the Florida Public Service Commission studied  
8 appropriate subsidy and affordability limits in a water and wastewater rate application by  
9 Agua Utilities Florida, Inc. The commission staff determined the affordability limit for a  
10 wastewater customer was equal to the average statewide commission approved  
11 wastewater rate plus two standard deviations. This resulted in an affordability cap of  
12 \$82.25. Under this guideline, the commission approved a "CAPBAND" rate structure  
13 that established a bill cap based on the affordability target and a method for subsidizing  
14 the excessive costs. Under the CAPBAND structure, the costs of any one band of  
15 consolidated systems that would result in a rate exceeding the affordability cap would be  
16 subsidized by the next band of consolidated systems. This created a waterfall effect of  
17 responsibility throughout the multi-system utility where no customer would exceed the  
18 amount deemed affordable, and subsidies were limited to only the portion of costs  
19 deemed unaffordable.

20 In a limited scope, using the methodology relied on by the Florida PSC to  
21 determine the affordability cap, the following table demonstrates what the affordability  
22 cap would be based on a sample of the wastewater systems in the area.  
23  
24  
25  
26

27 <sup>14</sup> Florida Public Service Commission, Order No. PSC-09-0385-FOF-WS, Docket Number 080121-WS, Aqua  
28 Utilities Florida, Inc. Petition for Permanent Rate Increase, May 29, 2009, Pp. 123-128.

### Analysis of Affordability Limits

Utility	Docket No.	Approved Rates Wastewater (7K Gallons)
EPCOR - Agua Fria Wastewater District	W-01303A-09-0343	\$ 121.91
EPCOR - Anthem Wastewater District	SW-01303A-09-0343	\$ 56.25
EPCOR - Mohave Wastewater District	SW-01303A-08-0227	\$ 82.79
EPCOR - Sun City Wastewater District	SW-01303A-09-0343	\$ 18.11
EPCOR - Sun City West Wastewater District	SW-01303A-09-0343	\$ 30.96
Johnson Utilities	WS-02987A-08-0180	\$ 40.98
Global Water - Palo Verde Utilities Company	SW-20445A-12-0310	\$ 64.34
Global Water - Santa Cruz Water Company	W-20446A-12-0314	\$ 49.75
Global Water - Valencia Water Co. (Greater Buckeye Division)	W-01212A-12-0309	\$ 55.36
Global Water - Water Utility of Greater Tonopah, Inc.	W-02450A-12-0312	\$ 37.16
Global Water - Water Utility of Northern Scottsdale, Inc.	W-03720A-12-0311	\$ 66.13
Global Water - Willow Valley Water Company, Inc.	W-01732A-12-0315	\$ 69.05
Liberty Utilities - Litchfield Water & Sewer Corp.	SW-01428A-13-0042	\$ 40.35
Liberty Utilities - Black Mountain Sewer Corp.	SW-02361A-08-0609	\$ 65.24
Liberty Utilities - Gold Canyon Sewer Company	SW-02519A-06-0015	\$ 52.40
Liberty Utilities - Entrada Del Oro Sewer Company	SW-04316A-05-0371	\$ 70.00
Liberty Utilities - Rio Rico Utilities Inc.	WS-02676A-12-0196	\$ 49.00
Average		\$ 57.05
Standard Deviation		22.57
Average plus 1 Standard Deviation		\$ 79.61
<b>Average plus two Standard Deviations *Recommended Affordability Target</b>		<b>\$ 102.18</b>

Using this methodology the recommended affordability target would be set at \$102.18, very similar to the \$99.17 determined by the EPA screen. The approved Agua-Fria rate of \$121.91 would be 19.3% above the recommended affordability target as calculated using the Florida Public Service Commission model.

**Q. WHY IS IT IMPORTANT FOR THE COMMISSION TO CONSIDER AFFORDABILITY IN THIS PROCEEDING?**

**A.** As demonstrated by the customer comments filed in this docket, many find the current rates objectionable and voice concerns over the financial hardship they are forced to endure as captive customers of an essential service. Affordability is a subjective factor

1 and there are limitations in any measurement of affordability due to the significant  
2 disparity in household incomes and financial ability across the service territory of a large  
3 utility. Nonetheless, given the levels of anticipated investment needed to provide water  
4 and wastewater services, affordability will be a rising concern for all.

5 Additionally, a rate structure that produces a rate that exceeds the typical  
6 customer's ability-to-pay would be ineffective in yielding total revenue requirements and  
7 a fair-return for the utility investors. This would jeopardize the ability of the utility to  
8 operate and attract capital in a time when greater investment is needed. Likewise,  
9 establishing a rate that exceeds the customer's ability-to-pay does not appear to follow  
10 the standard that rates be "just and reasonable."

11 EWAZ has identified in its August 8, 2014 response to Decision 74588 that it  
12 intends to make significant investment in each of the wastewater systems and this  
13 includes the potential significant investment in the West Valley Regional Water  
14 Reclamation Facility. The Arizona Residential Utility Consumer Office (RUCO) and  
15 Arizonans for Responsible Water Policy filed, with the Commission, a report titled "The  
16 Challenges of Consolidating an Industry," which also alludes to "looming investments in  
17 water infrastructure, sustainability, and increased water supplies that will exert dramatic  
18 upward pressure on rates."<sup>15</sup> Dramatic upward pressure has and continues to present  
19 itself through the investments required in the wastewater systems served by EWAZ.  
20 Affordability issues will continue to come to the forefront in this age of investment.

21 It is appropriate for the Commission to establish an objective standard for  
22 measuring affordability to be able to call upon in their ultimate determination of utility  
23 rates.  
24  
25  
26

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27 <sup>15</sup> Page 6  
28

1 **XI. VERRADO'S PROPOSED FULL CONSOLIDATION**

2 **Q. WHAT IS VERRADO PROPOSING TO DO WITH RATE DESIGN?**

3 A. I have prepared and attached an alternative full consolidation rate design in Attachment  
4 D. This alternative rate design addresses some potential shortcomings in the design  
5 proposed by EWAZ in its Direct Testimony. In the absence of a consolidated cost-of-  
6 service model based on recent test year data, EWAZ has proposed a consolidated uniform  
7 rate design that distributes total costs of a customer group evenly to the number of  
8 customers in the group by way of a fixed minimum charge. No consideration was given  
9 to the different usage levels currently present and handled by existing rates.  
10 Additionally, EWAZ proposed a single-year phase in to the proposed rates. The result of  
11 the EWAZ rates include dramatic rate increases and decreases, especially for commercial  
12 customers. Though some level of impact will occur through a complete consolidation,  
13 much of the severity of the impacts as proposed by EWAZ can be avoided through better  
14 rate design. Additionally, a two-step phase-in will lessen the immediacy of the rate  
15 impact, providing a more gradual transition to a consolidated system.

16 Until a full consolidated cost-of-service study can be completed, Verrado is  
17 proposing a two-step phase-in for residential rates resulting in nearly the same residential  
18 rate proposed by EWAZ in the second step, and an alternative two-step phase-in rate  
19 design for single, multi, and large commercial customers that takes meter size into  
20 consideration in the rate design. Full details are provided in Attachment D.

21 If for any reason the Commission determines that full consolidation will not be  
22 allowed in this proceeding, then Verrado is proposing to reverse in its entirety the prior  
23 de-consolidation of the Anthem/Agua Fria District described in Decision No. 73227 and  
24 Decision No. 73837.

25 **Q. PLEASE EXPLAIN THE RESULTS OF THE RATE DESIGN PROPOSAL.**

26 A. Within the Sun City Wastewater District, the current monthly minimum charge for  
27 residential meter size 5/8 x 3/4 inch is \$18.11. There is no current residential volumetric  
28 charge. The proposed monthly minimum charges for residential meter size 5/8 x 3/4-inch

1 are as follows: Step 1 is \$26.21. Step 2 is \$34.32. There is no proposed residential  
2 volumetric charge. The typical 5/8 x 3/4 inch meter residential customer would receive a  
3 \$16.21 increase in his monthly bill, or an 89.5 percent.  
4

5 Within the Sun City West Wastewater District, the current monthly minimum  
6 charge for residential meter size 5/8 x 3/4 inch is \$30.96. There is no current residential  
7 volumetric charge. The proposed monthly minimum charges for residential meter size  
8 5/8 x 3/4 inch are as follows: Step 1 is \$32.64. Step 2 is \$34.32. There is no proposed  
9 residential volumetric charge. The typical 5/8 x 3/4 inch meter residential customer  
10 would receive a \$3.36 increase in his monthly bill, or 10.9 percent.

11 Within the Agua Fria Wastewater District, the current monthly minimum charge  
12 for residential meter size 5/8 x 3/4 inch is \$66.12. The current residential volumetric  
13 charge at 5/8 x 3/4 meter size is \$7.97 per 1,000 gallons with a volumetric cap of 7,000  
14 gallons. The proposed charges for residential meter size 5/8 x 3/4 inch are as follows:  
15 Step 1 monthly minimum charge of \$60.57 with a volumetric charge of \$2.03 per 1,000  
16 gallons, with a volumetric cap of 7,000 gallons. Step 2 monthly minimum charge of  
17 \$34.32. There is no residential volumetric charge for Step 2. The typical 5/8 x 3/4 inch  
18 meter residential customer, with a monthly usage of 7,000 gallons, would receive an  
19 \$87.59 decrease in his monthly bill, or 71.8 percent.

20 Within the Anthem Wastewater District, the current monthly minimum charge for  
21 residential meter size 5/8 x 3/4 inch is \$30.00. The current residential volumetric charge  
22 at 5/8 x 3/4 meter size is \$3.75 per 1,000 gallons with a volumetric cap of 7,000 gallons.  
23 The proposed monthly minimum charges for residential meter size 5/8 x 3/4 inch are as  
24 follows: Step 1 is \$32.19 with a volumetric charge of \$1.87 per 1,000 gallons, with a  
25 volumetric cap of 7,000 gallons. Step 2 is \$34.32. There is no residential volumetric  
26 charge for Step 2. The typical 5/8 x 3/4 inch meter residential customer, with a monthly  
27 usage of 7,000 gallons, would receive a \$21.93 decrease in his monthly bill, or 39.0  
28 percent.

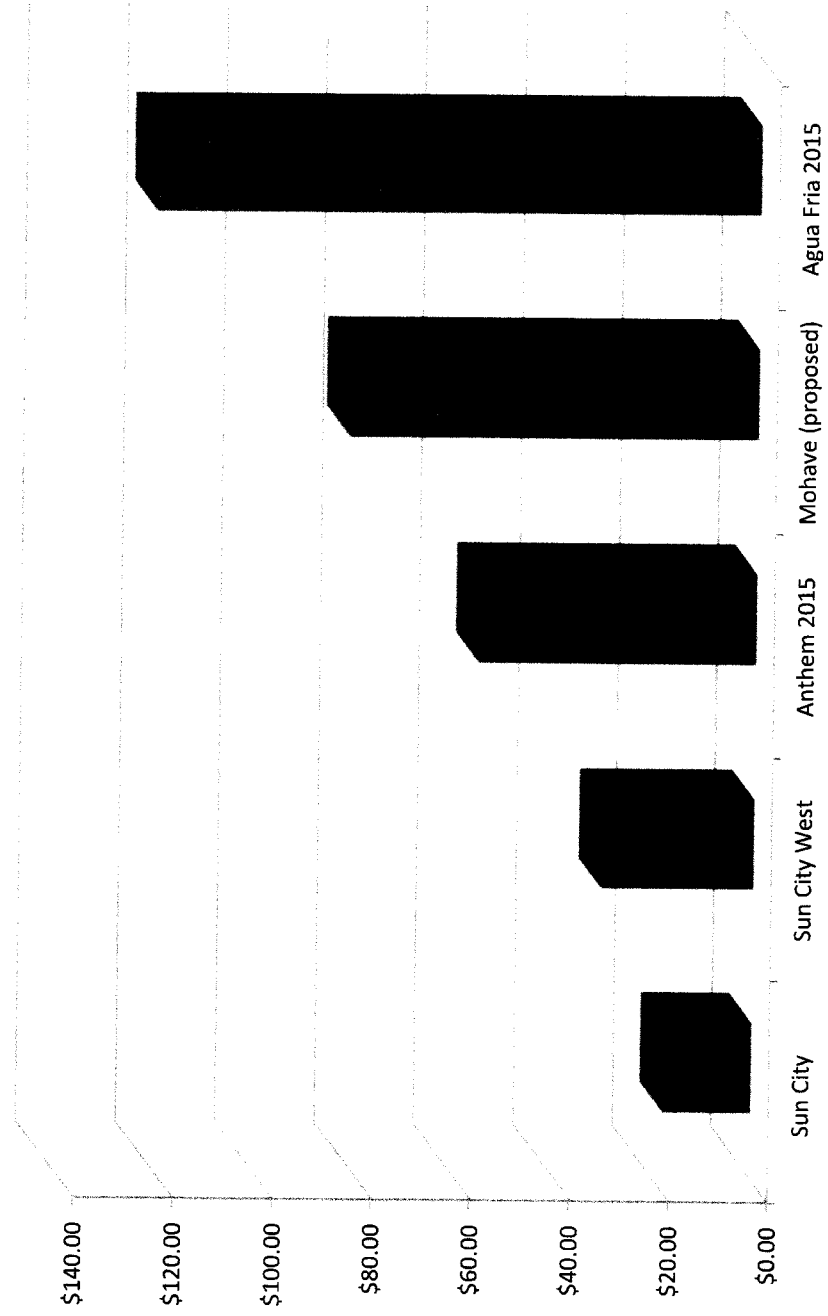
1                   Within the Mohave Wastewater District, the current monthly minimum charge for  
2 residential meter size 5/8 x 3/4 inch is \$82.79. There is no current residential volumetric  
3 charge. The proposed monthly minimum charges for residential meter size 5/8 x 3/4 inch  
4 are as follows: Step 1 is \$58.55. Step 2 is \$34.32. There is no proposed residential  
5 volumetric charge. The typical 5/8 x 3/4 inch meter residential customer would receive a  
6 \$48.47 decrease in his monthly bill, or 58.5 percent.

7 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

8 **A.** Yes.  
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A

# Disparity in Epcor Wastewater District Rates Typical 5/8" x 3/4" Residential Customer

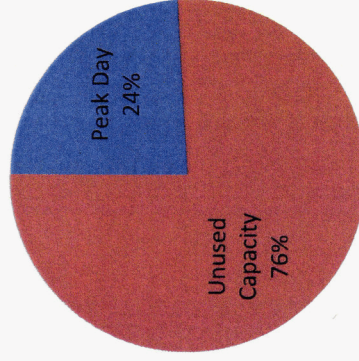




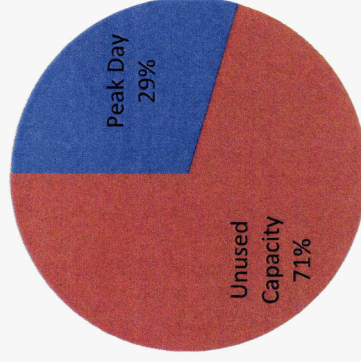
B

## Verrado WRF Unused Capacity (Peak Day per Annual Reports)

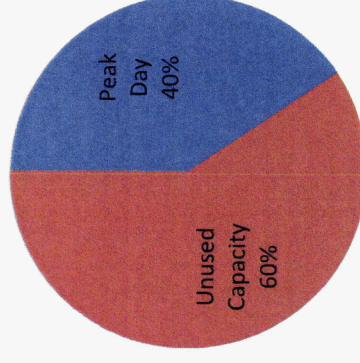
2008 Verrado WRF



2010 Verrado WRF

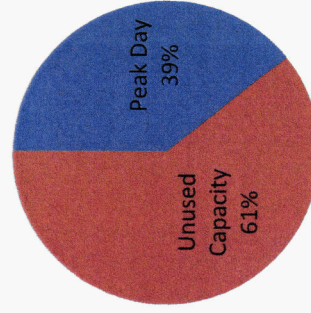


2013 Verrado WRF

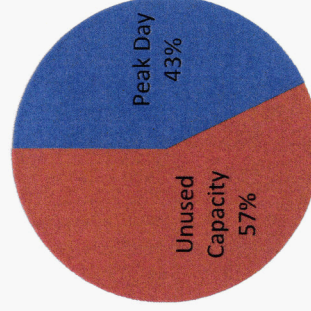


# Northwest Valley Regional WRF Unused Capacity (Peak Day per Annual Report)

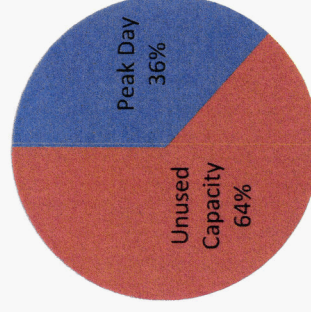
2008 Northwest Valley  
Regional WRF



2010 Northwest Valley  
Regional WRF

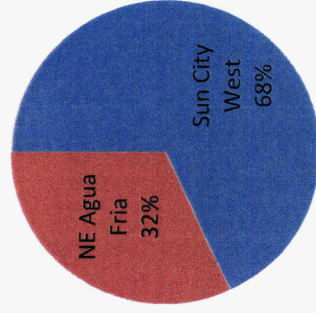


2013 Northwest Valley  
Regional WRF

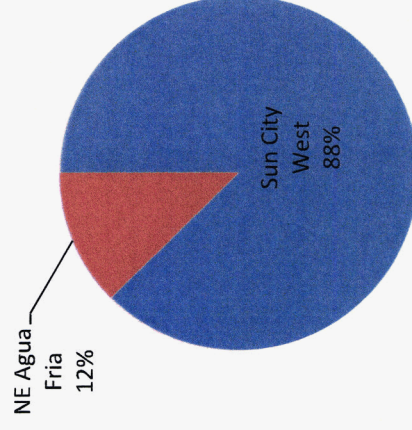


# Amount of Unused Capacity Costs Allocated to Agua Fria Division Northwest Valley Regional WRF

**2008 Total Plant Capacity  
Cost Allocation in Rates**

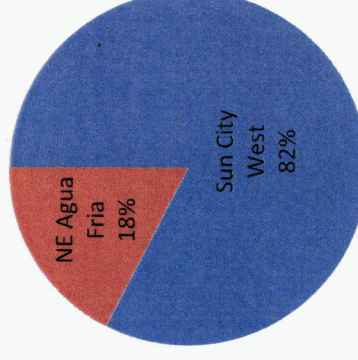
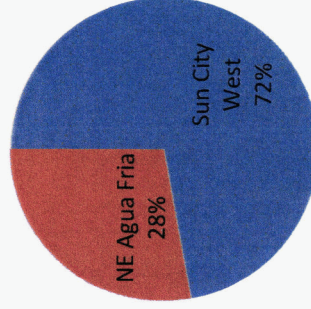


**Actual Use of Capacity 2008**



# Amount of Unused Capacity Costs Allocated to Agua Fria Division Northwest Valley Regional WRF

**Post-2011 Total Plant Capacity Cost Allocation in Rates**      **Actual Use of Capacity 2013**



C

**COMPANY:** ARIZONA AMERICAN WATER COMPANY  
**DOCKET NO:** W-01303A-09-0343

**Response provided by:** Sandy Murrey

**Title:** Rate Analyst

**Address:** 2355 W. Pinnacle Peak Rd., #300  
Phoenix, AZ 85027

**Company Response Number:** Verrado DMB 2.4

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Q. The Compliance Application indicates de-consolidation would increase the Agua Fria area rates significantly, and would reduce the Anthem area rates from those authorized in Decision No. 72047. Please identify the main factors that contribute to the large disparity between the de-consolidated rates for the Agua Fria wastewater customers and the de-consolidated rates for the Anthem area customers.

A: The main factors contributing to disparity in de-consolidated rates are the Northwest Valley Regional Reclamation Facility, the Verrado Reclamation Facility and its expansion as well as the Russell Ranch Reclamation Facility.

D



VERRADO COMMUNITY ASSOCIATION, INC.  
Docket No. SW-01303A-09-0343

Wastewater District Rate Design Proceeding

Revenue Requirement & Statistics

Line	Description	Total Authorized Revenue	Total # of Billing Units	Total Consumption	Flat Rate All Customers per Billing Unit	Volumetric Rate (flume kgals) <sup>2</sup> OWU Class <sup>2</sup>	Revenue @ Proposed Rates
<b>Flat Rate Residential per Unit; Flat Rate Commercial by sub-categories (excl MO)</b>							
1	Residential	\$ 25,792,489	751,604	870,371	\$ 34.32		\$ 25,792,472
2							
3	Commercial						
4	Single Unit - WC	29,588	2,664	0	\$ 11.11		\$ 29,597
5	Single Unit - WM	8,603	432	0	\$ 19.91		\$ 8,601
6	Single Unit - DW	4,484	48	0	\$ 93.42		\$ 4,484
7	Single Unit - WR	548	12	0	\$ 45.67		\$ 548
8	Single Unit - 5/8" & 3/4"	31,574	2,006	5,312	\$ 15.74		\$ 31,572
9	Single Unit - 1"	82,306	1,626	13,405	\$ 50.61		\$ 82,307
10	Single Unit - 1 1/2"	151,323	1,673	29,202	\$ 90.44		\$ 151,317
11	Single Unit - 2"	598,508	2,798	181,978	\$ 213.92		\$ 598,509
12	Multi-Unit < 2"	15,210	246	3,704	\$ 61.70		\$ 15,209
13	Multi-Unit > 2"	154,667	318	90,508	\$ 243.35	\$ 0.85	\$ 154,667
14	Large User (Meter > 2")	665,981	1,692	107,224	\$ 196.76	\$ 3.11	\$ 665,981
15	Mobile Home Parks (Paradise Park)	160,998	12	30,079	\$ 13,416.00		\$ 160,992
16	Commercial-Flat (Mohave ONLY)	14,902	180	0	\$ 83.00		\$ 14,940
9							
10	Other Public Authority-Flat (Mohave ONLY)	12,915	156	0	\$ 82.79		\$ 12,915
11							
12	Other Wholesale Users - City of Phoenix	792,489	24	231,722	\$ 4.29		\$ 792,489
13							
14	Effluent (AF, AN, MO ONLY)	631,157	632	825,559		\$ 0.7645	\$ 631,140
15							
16	Totals	\$ 29,147,741	766,124	2,389,066			29,147,741

<sup>2</sup> Based on Flume Flow

**Step - Interim Rate Proposal - Residential Rates**

Line No.	Rate Schedule	Description	Total # of Billing Units	Total Consumption	Authorized Revenue			Verrado Proposed Step-1 Interim Proposal			Verrado Proposed Step-2 Interim Proposal		
					Flat Rate All Customers	Volumetric Rate (flume kgals)	Authorized Revenue	Flat Rate All Customers	Volumetric Rate (flume kgals)	Interim Revenue	Flat Rate All Customers	Volumetric Rate (flume kgals)	Full Consolidation Revenue
Sun City													
1	A151A	Sun City Sewer Residential S Unit 5/8" & 3/4"	233,767	-	\$ 18.11	\$ -	\$ 4,233,034	\$ 26.21	\$ -	\$ 6,127,549	\$ 34.32	\$ -	\$ 8,022,063
2	A151B	Sun City Sewer Residential Single Unit 1"	2,650	-	\$ 46.86	\$ -	123,262	\$ 40.59	\$ -	106,761	\$ 34.32	\$ -	90,259
3	A151C	Sun City Sewer Residential Single Unit 1 1/2"	20	-	\$ 93.73	\$ -	1,876	\$ 64.02	\$ -	1,282	\$ 34.32	\$ -	687
4	A151D	Sun City Sewer Residential Single Unit =>2"	48	-	\$ 149.96	\$ -	7,204	\$ 92.14	\$ -	4,426	\$ 34.32	\$ -	1,649
5	A151N	Sun City Sewer Residential S Unit Non Water	1,214	-	\$ 18.11	\$ -	21,976	\$ 26.21	\$ -	31,812	\$ 34.32	\$ -	41,647
6	A152A	Sun City Sewer Residential M Unit All Water	127,974	-	\$ 18.11	\$ -	2,317,348	\$ 26.21	\$ -	3,354,487	\$ 34.32	\$ -	4,391,627
7	A152N	Sun City Sewer Residential M Unit Non Water	7,626	-	\$ 18.11	\$ -	138,093	\$ 26.21	\$ -	199,897	\$ 34.32	\$ -	261,701
Sun City West													
9	B151A	Sun City West Sewer Residential Single 5/8" & 3/4"	177,423	-	\$ 30.96	\$ -	5,492,203	\$ 32.64	\$ -	5,790,374	\$ 34.32	\$ -	6,088,545
10	B151B	Sun City West Sewer Residential Single Unit 1"	589	-	\$ 77.40	\$ -	45,575	\$ 55.86	\$ -	32,891	\$ 34.32	\$ -	20,207
11	B151D	Sun City West Sewer Residential Single Unit =>2"	37	-	\$ 247.66	\$ -	9,051	\$ 140.99	\$ -	5,152	\$ 34.32	\$ -	1,254
12	B151N	Sun City West Sewer Residential S Unit Non Water	157	-	\$ 30.96	\$ -	4,868	\$ 32.64	\$ -	5,132	\$ 34.32	\$ -	5,396
13	B152A	Sun City West Sewer Residential Multi all Units	28,336	-	\$ 30.96	\$ -	877,159	\$ 32.64	\$ -	924,780	\$ 34.32	\$ -	972,400
Agua Fria													
16	E1M51 / C1	Agua Fria Sewer Residential	54,616	289,304	\$ 66.12	\$ 7.97	5,917,096	\$ 60.57	\$ 2.03	3,895,673	\$ 34.32	\$ -	1,874,249
Anthem													
19	E1M51	Anthem Sewer Residential	99,935	581,067	\$ 30.00	\$ 3.75	5,177,038	\$ 32.19	\$ 1.87	4,303,224	\$ 34.32	\$ -	3,429,409
Mohave													
22	P1M51	Residential	17,233	-	\$ 82.79	\$ -	1,426,706	\$ 58.55	\$ -	1,009,042	\$ 34.32	\$ -	591,377
Totals			751,604	870,371			\$ 25,792,489			\$ 25,792,481			\$ 25,792,472

**Step - Interim Rate Proposal - Commercial Single Unit Rates**

Line No.	Rate Schedule Description	Total # of Billing Units	Total Consumption	Authorized Revenue			Verrado Proposed Step-1 Interim Proposal			Verrado Proposed Step-2 Interim Proposal		
				Flat Rate All Customers	Volumetric Rate (flume kgals)	Authorized Revenue	Flat Rate All Customers	Volumetric Rate (flume kgals)	Interim Revenue	Flat Rate All Customers	Volumetric Rate (flume kgals)	Full Consolidation Revenue
1	Single Unit - WC											
2	A2M52 Sun City Sewer Commercial WC	240	-	\$ 5.64	-	\$ 1,355	\$ 8.38	\$ -	\$ 2,010	\$ 11.11	\$ -	\$ 2,666
3	B2M52 Sun City West Sewer Commercial WC	2,424	-	\$ 11.65	-	\$ 28,234	\$ 11.38	\$ -	\$ 27,578	\$ 11.11	\$ -	\$ 26,923
5												
6	Single Unit - WM											
7	A2M54 Sun City Sewer Commercial WM	72	-	\$ 10.48	-	\$ 754	\$ 15.20	\$ -	\$ 1,094	\$ 19.91	\$ -	\$ 1,434
8	B2M54 Sun City West Sewer Commercial WM	360	-	\$ 21.80	-	\$ 7,849	\$ 20.86	\$ -	\$ 7,509	\$ 19.91	\$ -	\$ 7,169
10												
11	Single Unit - DW											
12	B2M53 Sun City West Sewer Commercial DW	48	-	\$ 93.42	-	\$ 4,484	\$ 93.42	\$ -	\$ 4,484	\$ 93.42	\$ -	\$ 4,484
13												
14	Single Unit - DWR											
15	B2M55 Sun City West Sewer Commercial WR	12	-	\$ 45.67	-	\$ 548	\$ 45.67	\$ -	\$ 548	\$ 45.67	\$ -	\$ 548
17												
18	Single Unit - 5/8" & 3/4"											
19	A251A Sun City Sewer Commercial 5 Unit 5/8" & 3/4"	1,690	4,054	\$ 9.20	1.29	\$ 20,768	\$ 10.67	1.39	\$ 23,684	\$ 15.74	-	\$ 26,600
20	B251A Sun City West Sewer Commercial Single Unit 5/8" & 3/4"	253	956	\$ 17.65	2.60	\$ 6,954	\$ 12.95	2.29	\$ 5,468	\$ 15.74	-	\$ 3,983
21	E2M51 Anthem Sewer Commercial 1"	51	302	\$ 30.00	3.75	\$ 2,662	\$ 16.32	2.98	\$ 1,732	\$ 15.74	-	\$ 802
22	E2M52 / C-Agua Fria Sewer Commercial 3/4"	12	-	\$ 99.18	7.97	\$ 1,190	\$ 57.46	-	\$ 690	\$ 15.74	-	\$ 189
24												
25	Single Unit - 1"											
26	A251B Sun City Sewer Commercial 5 Unit 1"	1,054	8,350	\$ 23.02	1.29	\$ 34,994	\$ 30.41	1.45	\$ 44,156	\$ 50.61	-	\$ 53,318
27	B251B Sun City West Sewer Commercial Single Unit 1"	336	2,951	\$ 44.13	2.60	\$ 22,514	\$ 37.17	2.46	\$ 19,764	\$ 50.61	-	\$ 17,013
28	E2M53 Anthem Sewer Commercial 1"	213	1,876	\$ 60.06	3.75	\$ 19,803	\$ 41.98	3.39	\$ 15,281	\$ 50.61	-	\$ 10,759
29	E2M53 / C-Agua Fria Sewer Commercial 1"	24	228	\$ 132.39	7.97	\$ 4,994	\$ 65.45	7.97	\$ 3,388	\$ 50.61	-	\$ 1,215
31												
32	Single Unit - 1.1/2"											
33	A251C Sun City Sewer Commercial 5 Unit 1.1/2"	1,106	19,485	\$ 46.02	1.29	\$ 75,947	\$ 55.27	1.38	\$ 87,975	\$ 90.44	-	\$ 100,003
34	B251C Sun City West Sewer Commercial Single Unit 1.1/2"	567	9,717	\$ 88.27	2.60	\$ 75,376	\$ 71.31	2.35	\$ 63,348	\$ 90.44	-	\$ 51,320
36												
37	Single Unit - 2" and Greater											
38	A251D Sun City Sewer Commercial 5 Unit 2"	1,133	34,515	\$ 73.63	1.29	\$ 127,833	\$ 92.44	1.40	\$ 152,896	\$ 106.96	1.64	\$ 177,959
39	A251E Sun City Sewer Commercial 5 Unit > 2"	144	104,554	\$ 73.63	1.29	\$ 145,119	\$ 190.65	1.33	\$ 166,254	\$ 106.96	1.64	\$ 187,390
40	B251D Sun City West Sewer Commercial Single Unit Non Water	12	-	\$ 73.63	-	\$ 884	\$ 87.80	-	\$ 1,054	\$ 106.96	1.64	\$ 1,284
41	B251D Sun City West Sewer Commercial Single Unit 2"	1,016	25,962	\$ 141.23	2.60	\$ 211,073	\$ 117.73	2.37	\$ 181,224	\$ 106.96	1.64	\$ 151,375
42	B251E Sun City West Sewer Commercial Single Unit > 2"	23	16,947	\$ 141.23	2.60	\$ 47,352	\$ 141.23	2.10	\$ 38,840	\$ 106.96	1.64	\$ 30,328
43	B251N Sun City West Sewer Commercial Single Unit No Water	469	-	\$ 141.23	2.60	\$ 66,249	\$ 124.10	2.60	\$ 58,210	\$ 106.96	1.64	\$ 50,172
48												
49	Totals	11,259	229,898			\$ 906,934			\$ 907,188			\$ 906,934

**Step - Interim Rate Proposal - Commercial Multi Unit Rates**

Line No.	Rate Schedule	Description	Total # of Billing Units	Total Consumption	Authorized Revenue			Verrado Proposed Step-1 Interim Proposal			Verrado Proposed Step-2 Interim Proposal		
					Flat Rate All Customers	Volumetric Rate (flume kgals)	Authorized Revenue	Flat Rate All Customers	Volumetric Rate (flume kgals)	Interim Revenue	Flat Rate All Customers	Volumetric Rate (flume kgals)	Full Consolidation Revenue
1. Multi Unit < 2"													
1	A252A	Sun City Sewer Commercial M Unit 5/8" & 3/4"	59	235	\$ 9.20	\$ 1.29	\$ 849	\$ 32.91	\$ 1.29	\$ 2,259	\$ 61.70	\$ -	\$ 3,666
2	A252B	Sun City Sewer Commercial M Unit 1"	24	296	\$ 23.02	\$ 1.29	\$ 926	\$ 34.32	\$ 1.29	\$ 1,195	\$ 61.70	\$ -	\$ 1,461
3	A252B	Sun City West Sewer Commercial Multi Unit 1"	24	297	\$ 44.13	\$ 2.60	\$ 1,833	\$ 38.34	\$ 2.48	\$ 1,658	\$ 61.70	\$ -	\$ 1,481
4	A252C	Sun City Sewer Commercial M Unit 1-1/2"	115	2,515	\$ 46.02	\$ 1.29	\$ 8,546	\$ 41.02	\$ 1.23	\$ 7,828	\$ 61.70	\$ -	\$ 7,121
5	B252C	Sun City West Sewer Commercial Multi Unit 1 1/2"	24	360	\$ 88.27	\$ 2.60	\$ 3,055	\$ 60.50	\$ 2.27	\$ 2,269	\$ 61.70	\$ -	\$ 1,481
8. Multi Unit > 2"													
9	A252D	Sun City Sewer Commercial M Unit 2"	211	6,741	\$ 73.63	\$ 1.29	\$ 24,176	\$ 73.63	\$ 3.72	\$ 40,581	\$ 243.35	\$ 0.85	\$ 57,005
10	B252D	Sun City West Sewer Commercial Multi Unit 2"	48	1,920	\$ 141.23	\$ 2.60	\$ 11,776	\$ 157.33	\$ 2.60	\$ 12,544	\$ 243.35	\$ 0.85	\$ 13,321
11	B252E	Sun City West Sewer Commercial Single Unit > 2"	15	6,130	\$ 141.23	\$ 2.60	\$ 18,071	\$ 80.01	\$ 2.00	\$ 13,460	\$ 243.35	\$ 0.85	\$ 8,888
12	A252E	Sun City Sewer Commercial M Unit > 2"	44	75,717	\$ 73.63	\$ 1.29	\$ 10,643	\$ 73.63	\$ 1.12	\$ 88,058	\$ 243.35	\$ 0.85	\$ 75,453
Totals					\$ 169,877			\$ 169,851			\$ 169,877		

**Step - Interim Rate Proposal - Commercial Large > 2"**

Line No.	Rate Schedule Description	Total # of Billing Units	Total Consumption	Authorized Revenue			Verrado Proposed Step-1 Interim Proposal			Verrado Proposed Step-2 Interim Proposal		
				Flat Rate All Customers	Volumetric Rate (flume kgals)	Authorized Revenue	Flat Rate All Customers	Volumetric Rate (flume kgals)	Interim Revenue	Flat Rate All Customers	Volumetric Rate (flume kgals)	Full Consolidation Revenue
1	Multi Unit < 2"											
2	B257D Sun City Sewer Commercial Large User => 2"	49	3,836	\$ 73.63	\$ 1.29	\$ 8,542	\$ 179.85	\$ 1.63	\$ 15,065	\$ 196.76	\$ 3.11	\$ 21,553
3	B257D Sun City West Sewer Commercial Single Unit LU => 2"	36	18,401	\$ 141.23	\$ 2.60	\$ 52,972	\$ 266.31	\$ 2.66	\$ 58,534	\$ 196.76	\$ 3.11	\$ 64,229
4	P2M54 & P Large Commercial/Industrial	36	5,120	\$ 106.71	\$ 3.34	\$ 20,932	\$ 135.21	\$ 3.34	\$ 21,968	\$ 196.76	\$ 3.11	\$ 22,984
5	E2M54 Anthem Sewer Commercial LG	1,313	66,117	\$ 120.09	\$ 3.75	\$ 405,671	\$ 142.20	\$ 3.75	\$ 434,712	\$ 196.76	\$ 3.11	\$ 463,761
6	E2M54 / C/Agua Fria Sewer Commercial Large	258	13,751	\$ 264.68	\$ 7.97	\$ 177,864	\$ 231.95	\$ 5.51	\$ 135,595	\$ 196.76	\$ 3.11	\$ 93,454
7												
13												
14	Totals	1,692	107,224			\$ 665,981			\$ 665,874			\$ 665,981